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## Report of the Chief Officer (Financial Services)

### Report to Corporate Governance and Audit Committee

Date: 7<sup>th</sup> April 2017

Subject: Internal Audit Plan 2017-18

Are specific electoral Wards affected?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
If relevant, name(s) of Ward(s):		
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
If relevant, Access to Information Procedure Rule number:		
Appendix number:		

### Summary of main issues

1. The Corporate Governance and Audit Committee has responsibility for reviewing the adequacy of the Council's corporate governance arrangements.
2. The Public Sector Internal Audit Standards (PSIAS) require the Head of Internal Audit to deliver an annual internal audit opinion and report that can be used by the council to inform its governance statement. The standards also refer to the need for a risk-based plan to take into account the requirement to produce an annual internal audit opinion which includes input from management and the Corporate Governance and Audit Committee. Standard 2020 requires that internal audit plans are communicated to senior management and the Committee for review and approval.
3. The Terms of Reference for the Corporate Governance and Audit Committee include the consideration of the Council's arrangements relating to internal audit requirements and specifically, reviewing and approving the risk-based plan and any additional significant work.
4. This report therefore provides members with the proposed Internal Audit Plan for 2017-18.

### Recommendations

5. The Corporate Governance and Audit Committee is asked to review and approve the proposed Internal Audit Plan for 2017-18.

## **1 Purpose of this report**

1.1 The purpose of this report is to present the proposed Internal Audit Plan for 2017-18 to the Corporate Governance and Audit Committee for review and approval. This report also includes a summary of the basis for the plan. The plan has been developed in consultation with senior management.

## **2 Background information**

- 2.1 The Corporate Governance and Audit Committee has responsibility for reviewing the adequacy of the Council's corporate governance arrangements.
- 2.2 From April 2013 CIPFA and the Chartered Institute of Internal Auditors launched a common set of Public Sector Internal Audit Standards (PSIAS) to be adopted across the public sector. The PSIAS set out the standards for internal audit.
- 2.3 The principles of the PSIAS are consistent with the previous CIPFA Code of Practice for Internal Audit that applied across local government. They include the need for risk-based plans to be developed for internal audit and for plans to receive input from management and the Corporate Governance and Audit Committee. Standard 2020 requires that internal audit plans are communicated to senior management and the Committee for review and approval.
- 2.4 The Chief Officer (Financial Services), as the council's Section 151 Officer, is responsible under the Local Government Act 1972 for ensuring that there are arrangements in place for the proper administration of the authority's financial affairs. The work of Internal Audit is an important source of information for the Chief Officer (Financial Services) in exercising his responsibility for financial administration.

## **3 Main issues**

### **3.1 Background**

- 3.1.1 Internal audit contributes to Leeds City Council achieving its key priorities by helping to promote a secure and robust internal control environment, which enables a focus on achieving the key priorities.
- 3.1.2 Internal audit also supports the Chief Officer (Financial Services) in discharging his statutory duties. The following are two key pieces of legislation that internal audit supports the Chief Officer (Financial Services) to comply with:
- Section 151 of the Local Government Act 1972. The Chief Officer (Financial Services), as the Council's Section 151 Officer, is responsible under the Local Government Act for ensuring that there are arrangements in place for the proper administration of the authority's financial affairs. The work of internal audit is an important source of information for the Chief Officer (Financial Services) in exercising his responsibility for financial administration.

- The Accounts and Audit Regulations 2015. The regulations state that ‘A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance’.
- 3.1.3 The PSIAS set out the standards for internal audit and include the need for risk-based plans to be developed for internal audit and for plans to receive input from management and the ‘Board’. Within Leeds City Council, the Corporate Governance and Audit Committee fulfils the key duties of the Board laid out in the PSIAS. This report sets out the proposed plan for 2017-18.
- ### 3.2 The Planning Process
- 3.2.1 The PSIAS require that the Head of Internal Audit *‘must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation’s goals.’* The standards state that the risk-based plan should take into account the requirement to produce an annual internal audit opinion and report that is used by the organisation to inform its governance statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control. To support this, the risk-based plan needs to include an appropriate and comprehensive range of work. There also needs to be a balance between breadth (taking a broad look at governance and risk management) and depth (drilling down into specific areas where internal audit can provide valuable insight).
- 3.2.2 Given the resources available for internal audit, there will continue to be a need for greater reliance to be placed on management controls within the internal control framework and for a potentially higher level of risk to be accepted. Directorate Leadership Teams must have appropriate arrangements in place to ensure that they have assurance on key risk areas and that the risk management process supports and enables the delivery of objectives. Internal audit resource will need to be focused on the most significant risk areas and on the robustness of financial control.
- 3.2.3 The proposed plan has taken into account other sources of assurances and known areas of ongoing work that contribute to the assurance framework (for example, in the area of cyber assurance), to avoid duplication and broaden the span of overall assurance. These, taken together with the work of internal audit, will provide the assurance coverage necessary to support the needs of the Corporate Governance and Audit Committee.
- 3.2.4 In line with the PSIAS the proposed audit plan has been devised adopting a risk based approach using the following sources:

- the Council’s risk management processes and the corporate and directorate risk registers;
- the results of previous internal audit work and our ongoing assessment of the auditable entities within the authority;
- planned work deferred from 2016-17;
- awareness of relevant local and national issues;

- consultation with Corporate Governance and Audit Committee, the Council's Section 151 Officer, senior management and colleagues from across the organisation; and
- regular dialogue with the core cities and authorities within South and West Yorkshire helps to ensure that we are aware of emerging risks within other councils so that they can be considered during audit planning.

**3.2.5** The outputs from the planning process have been prioritised to produce a plan that balances the following:

- the requirement to give an objective and evidenced based opinion on aspects of governance, risk management and internal control;
- the time required for anti-fraud and corruption activity
- the requirement for internal audit to add value through improving controls, streamlining processes and supporting corporate priorities;
- the need to retain a contingency element to remain responsive to emerging risks; and
- the resource and skill mix available to undertake the work.

### **3.3 Resources**

**3.3.1** The number of days allocated in the plan to specifically provide the Head of Internal Audit with the evidence for the opinion on the control environment is 2,426 days (2016/17 – 2,685 days.) The level of resources required to provide internal audit services to external clients is 247 days. The total Internal Audit Plan for 2017/18 is therefore 2,673 days (2015/16 – 2,897 days). In my opinion, this is sufficient to perform the work necessary to deliver the annual internal audit opinion and report that is used by the organisation to inform its governance statement.

### **3.4 Internal Audit Plan 2017/18**

- 3.4.1** Appendix A provides a breakdown of the individual audits that are proposed for inclusion within the audit plan for 2017/18. The work is grouped at directorate level or functional area to align with risk registers and accountabilities. An overview of the assurance that each audit aims to achieve is provided together with an estimate of the audit resource that will be required to complete the review.
- 3.4.2** The plan is designed to be responsive in nature and all efforts will be made to maximise coverage to provide the most effective and agile internal audit service possible that focuses on those key issues facing the organisation throughout the year.
- 3.4.3** Progress against the plan will be monitored throughout the year and key issues will continue to be reported to the Corporate Governance and Audit Committee.

3.4.4 Table 1: Comparison with Internal Audit Plan 2016/17

Assurance Block	2017/18 Plan		2016/17 Plan	
	Days	% of total assurance days	Days	% of total assurance days
Anti Fraud and Corruption	316	13.03%	358	13.33%
Grants / Head of Audit Assurances	92	3.79%	92	3.43%
Continuous audit	150	6.18%	150	5.59%
ICT and Information Governance	110	4.53%	115	4.28%
Key Financial Systems	438	18.05%	455	16.95%
Procurement	180	7.42%	235	8.75%
Schools	50	2.06%	30	1.12%
Follow up	150	6.18%	85	3.17%
Directorate and cross cutting	820	33.80%	1020	37.99%
General Contingency	120	4.95%	145	5.40%
<b>Total Assurance Days</b>	<b>2426</b>	<b>100.00%</b>	<b>2685</b>	<b>100.00%</b>
<b>Other</b>				
External Contracts - existing	157		197	
External Contracts - new	90		0	
PSIAS External Assessment	0		15	
<b>Total Other</b>	<b>247</b>		<b>212</b>	
<b>Total Days</b>	<b>2673</b>		<b>2897</b>	

## 4 Corporate Considerations

### 4.1 Consultation and Engagement

4.1.5 This report did not highlight any consultation and engagement considerations.

### 4.2 Equality and Diversity / Cohesion and Integration

4.2.1 This report does not highlight any issues regarding equality, diversity, cohesion and integration.

### 4.3 Council policies and Best Council Plan

4.3.1 The Terms of Reference of the Corporate Governance and Audit Committee require the Committee to review the adequacy of the Council's corporate governance arrangements (including matters such as internal control and risk management.) They also require the Committee to consider the Council's

arrangements relating to internal audit requirements including reviewing and approving the risk-based plan and any additional significant work.

- 4.3.2 The Council's Financial Regulations require that an effective internal audit service is provided in line with legislation and the appropriate audit standards to help the organisation accomplish its objectives.

#### **4.4 Resources and value for money**

- 4.4.1 In relation to resources and value for money, the internal audit work plan includes a number reviews and initiatives in line with the Council's value of spending money wisely. These will be included in the regular update reports to the Committee.
- 4.4.2 The Internal Audit Quality Assurance and Improvement Programme and service development work that is reported to the Committee demonstrates that the efficiency and effectiveness of the section is continually improving.

#### **4.5 Legal Implications, Access to Information and Call In**

- 4.5.1 None.

#### **4.6 Risk Management**

- 4.6.1 The Internal Audit Plan will continue to be subject to constant review throughout the financial year to ensure that audit resources are prioritised and directed towards the areas of highest risk. This process incorporates a review of information from a number of sources, one of these being the corporate risk register.
- 4.6.2 The risks relating to the achievement of the Internal Audit Plan will be managed through ongoing monitoring of performance and resource levels. This information will continue to be reported to the Committee.

### **5 Conclusions**

- 5.1 The proposed Internal Audit Plan for 2017-18 has been prepared in line with the PSIAS. A risk-based approach has been used to prioritise internal audit work and ensure there is sufficient coverage and internal audit resource to provide an evidence-based assurance opinion that concludes on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.
- 5.2 The plan is responsive in nature and all efforts will be made to maximise coverage to provide the most effective and agile internal audit service that focuses on those key risks facing the organisation throughout the year.
- 5.3 Progress against the plan will be monitored throughout the year and key issues will continue to be reported to the Corporate Governance and Audit Committee.

## **6      Recommendations**

- 6.1     The Corporate Governance and Audit Committee is asked to review and approve the proposed Internal Audit Plan for 2017-18.

## **7      Background documents**

- 7.1     None

Internal Audit Plan for 2017/18		
Audit	Overview of Assurance	Audit Days
<b>Anti-Fraud and Corruption</b>		
Whistleblowing hotline and reactive work	Risk assessment and investigation of allegations and referrals.	100
Anti-fraud and corruption strategies and proactive work	Risk-based proactive work to prevent and detect fraud.	201
Anti-fraud and corruption policy update	Update of anti-fraud and corruption policies.	15
		<b>316</b>
<b>Grants and Head of Audit Assurances</b>		
Local Transport Capital Block Funding Grant (Integrated Transport and Highway Maintenance) Claim	Independent examination of accounts and /or assurance that the grant has been spent in accordance with the grant determination.	9
West Yorkshire Combined Authority Treasury Management Assurance		2
Leeds City Region Core Cities Green Deal Grant Claim		7
Local Authority Bus Subsidy Ring-Fenced (Revenue) Grant Claim		1
Troubled Families Grant Claim		20
Schools Central Financial Controls		15
Cycling Ambition Grant Claim		5
West Yorkshire Plus Transport Fund Grant Claim		5
Disabled Facilities Grant Claim		5
Childhood Obesity Grant		3
Fuel Poverty Grant		10
Other Grants / Head of Audit Assurances arising in year		10
		<b>92</b>

Internal Audit Plan for 2017/18		
Audit	Overview of Assurance	Audit Days
<b>Continuous Audit</b>		
Programme of continuous audit	Evaluation of control effectiveness across key systems on an ongoing basis, highlighting and reviewing high risk events or transactions. The programme will be updated throughout the year to include emerging risk areas.	150
<b>ICT and Information Governance</b>		
General Data Protection Regulation (GDPR)	To gain assurance that the appropriate arrangements are in place to manage the risks associated with the new legal framework.	25
Information Security	To provide assurance on compliance with the requirements of the Information Management System (ISMS) embodied in ISO/IEC 27001 (International Standard on Information Security).	10
Electronic Records Management	To provide assurance that there are appropriate arrangements in place to ensure that electronic records are securely managed.	25
Business applications	Individual reviews of the key computer applications looking at system access and administration, input, processing and output controls.	25
ICT related projects	To provide support for ICT related project	15
Password Configuration	A compliance audit to provide assurance that systems enforce the password requirements in line with the council's Password Policy.	10
		<b>110</b>
<b>Key Financial Systems</b>		
Housing Benefits - Accounting and Subsidy	System and compliance audits to provide assurance over the effectiveness of the Council's key financial systems.	10
Housing Benefits - Assessment and Payments		30
Benefits Counter Fraud		5
Council Tax		45

Internal Audit Plan for 2017/18		
Audit	Overview of Assurance	Audit Days
Business Rates	System and compliance audits to provide assurance over the effectiveness of the Council's key financial systems.	30
Capital Programme		20
Financial Management Central Controls		10
Treasury Management and Bankline		25
Housing Rents		20
Sundry Income Central Controls		20
Sundry Income - Directorate Reviews		30
Income Management System		14
Payroll Central Controls		70
Creditors Central Controls (including duplicate payments)		50
Central Purchasing Card Controls		10
Bank Reconciliation and Cash Book		24
Total Repairs		25
		<b>438</b>
<b>Procurement</b>		
Procurement maturity review	Review of organisational procurement arrangements against best practice.	30
Procurement decision making	To gain assurance that procurement decision making arrangements are fit for purpose and routinely complied with.	20
Contract management	To gain assurance that contracts are being managed to deliver their intended outcomes, incorporating open book review where necessary.	60
Tendering system controls	To gain assurance that controls are in place within the YORTENDER system in order to ensure compliance with Contract Procedure Rules	20
Programmes and complex projects	To gain assurance that project and programme management is in line with the council's methodology and best practice.	30

Internal Audit Plan for 2017/18		
Audit	Overview of Assurance	Audit Days
Emerging procurement risks	Time reserved to assess and respond to emerging procurement risks.	20
		<b>180</b>
<b>Schools</b>		
Schools	Individual audits of LCC maintained schools undertaken on a risk basis.	30
School clusters and Area Inclusion Partnerships (AIPs)	To provide assurance on the governance, risk management and control arrangements in respect of school clusters and AIPs.	20
		<b>50</b>
<b>Follow up</b>		
Follow up audits	Individual follow up audits of areas that have previously been given a low assurance audit opinion.	150
		<b>150</b>
<b>Adult Social Care and Health</b>		
CIS Payments	To provide assurance that payments are only made in relation to people with an assessed need, have been correctly processed and are net of any client contribution. The review will also provide assurance on the adequacy of controls for identifying changes in circumstances.	40
Deprivation of Liberties (DoLs)	To gain assurance that there are appropriate arrangements in place to ensure that the Council complies with relevant legislation.	30
Reablement	To gain assurance that there are appropriate processes and procedures to provide support to service users to enable them to regain their independence after an illness or a stay in hospital.	20
Homecare review	To undertake a review of the homecare contract to gain assurance over care quality and timeliness of commissioning care for service users.	20

Internal Audit Plan for 2017/18		
Audit	Overview of Assurance	Audit Days
Transitions	To provide assurance that there are suitable arrangements in place to ensure that people with disabilities have a smooth transition between childhood and adulthood and there are effective arrangements in place to ensure budget commitments for ASC are identified at the earliest opportunity.	25
Safeguarding	The work undertaken in 2016/17 will be used to identify a specific area for review.	15
Public Health Information Governance	The review will aim to provide assurance that there are appropriate controls in place at a directorate level to ensure that information is managed in accordance with LCC policies and legislation.	20
Unannounced visits	Individual establishment visits to provide assurance on cash handling arrangements, including the safeguarding of service user monies.	10
		<b>180</b>
<b>Children's and Families</b>		
Payments and contract monitoring of third sector	To gain assurance that there are effective monitoring arrangements in place where payments are made to third sector organisations.	25
Payments for Special Education Needs Placements	To gain assurance that there are appropriate arrangements in place for payments in relation to special education needs placements, including eligibility and accuracy of payments.	25
Governance arrangements for Leeds City Council's role as Lead Authority for One Adoption West Yorkshire	To gain assurance that there are appropriate governance arrangements in place to fulfil LCC's responsibilities as Lead Authority for adoptions.	20
Information governance	The review will aim to provide assurance that there are appropriate controls in place at a directorate level to ensure that information is managed in accordance with LCC policies and legislation.	25
Arrangements for forecasting and planning for school places	To review the assumptions made around demand for future schools places.	10
Collection of income from Children's Centres	To review the processes in place to ensure that all income due is received and banked and ensure that any debts are managed in line with agreed procedures.	20

Internal Audit Plan for 2017/18		
Audit	Overview of Assurance	Audit Days
Management of school deficits	To gain assurance that school deficits are managed effectively and in line with agreed procedures.	20
Programme of unannounced visits	Individual establishment visits to provide assurance on cash handling arrangements, including safeguarding of service user monies.	10
		<b>155</b>
<b>Resources and Housing</b>		
Spending Money Wisely Ideas Service	On-going maintenance of the staff ideas service including responses to submissions and the transfer of information to directorate contacts.	20
Organisational culture	An ethics-related audit that will assess the extent to which arrangements are in place to embed the ethical principles of good governance within the organisation.	25
Personal service companies	To gain assurance that the Council is complying with the new HMRC responsibilities effective from April 2017.	20
Vehicle frameworks	To gain assurance that the cost of vehicle hire is adequately controlled and the contract is managed to ensure charges are in line with agreed rates.	20
Belle Isle Tenant Management Organisation Assurances	Reviews to provide assurance that the Belle Isle Tenant Management Organisation is managing the key risks that have been delegated under the Modular Management Agreement.	20
Lettings Enforcement	To gain assurance that properties have been allocated in line with the Lettings Policy and that the waiting list is appropriately managed.	50
Major Adaptations	A review of the process for undertaking major adaptations to properties funded by the Disabled Facilities Grant and by the Council.	25
Housing Advisory Panel Grants	To gain assurance that there are robust processes in place for the allocation of Housing Advisory Panel Grants	25
Former Tenant Arrears	To gain assurance that the Rent Arrears Policy and Former Tenant Arrears Procedures are complied with.	15
Leeds Building Services Assurances	Reviews to provide assurance that Leeds Building Services is appropriately managing key risks.	40

Internal Audit Plan for 2017/18		
Audit	Overview of Assurance	Audit Days
Disrepair Service	A review of the disrepair process to ensure that there is a robust system in place to ensure that any disrepair claims received are processed appropriately.	30
Housing Leeds follow ups, contingency and management	To review the progress made in implementing audit recommendations, respond to emerging risks identified during the year and manage the Housing Leeds audit portfolio.	45
		<b>335</b>
<b>Communities and Environment</b>		
Partnership risk management	To gain assurance that partnership risks within the directorate are being identified and managed appropriately.	20
Information governance	The review will aim to provide assurance that there are appropriate controls in place at a directorate level to ensure that information is managed in accordance with LCC policies and legislation.	20
Taxi and Private Hire Licensing	To gain assurance that taxi licensing arrangements sufficiently address safeguarding risks	10
Income collection	A review of the income collection processes in a sample of material (e.g parking) and new (e.g bulky waste) areas.	20
Preparations for meeting air quality targets	To provide assurance on the management of the plans in place to achieve air quality objectives	20
Unannounced visits programme	Individual establishment visits to provide assurance on cash handling arrangements	10
		<b>100</b>
<b>City Development</b>		
Income review	A review of the controls over income generation, income collection, invoicing and debt management for commercial services.	20
Flooding operations	A review of flooding operations preparedness	20
External advertising contract	To provide assurance that income is received in accordance with the advertising	10

Internal Audit Plan for 2017/18		
Audit	Overview of Assurance	Audit Days
	contract.	
		50
<b>Contingency</b>		
Contingency	Time reserved for new emerging risks and unplanned work.	120
		120
<b>Total Assurance Days 2017-18</b>		<b>2426</b>